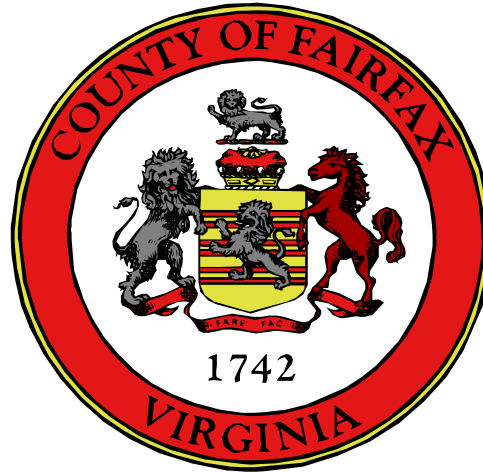


INTERNAL AUDIT REPORT

REVIEW OF CONTROLS OVER THE COUNTY INVOICE PROCESSING FOR BILLABLE REVENUES



**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Robert J. O'Neill, Jr.
County Executive

DATE: January 5, 2000

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the "*Review of Controls Over the County Invoice Processing for Billable Revenues*"

This is a report on "*Review of Controls Over the County Invoice Processing for Billable Revenues*". It was performed as part of our FY 2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. The department's responses are incorporated into the report. Their full responses are attached at the end of the report.

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Introduction

Revenue billing and collection administration is an important function of any local government. The billing and collection of all revenues due the County is a major operating goal. Total billable non-tax revenues outstanding for the County totaled over \$41,000,000 as of June 30, 1999. County departments provide many diverse programs and services for the citizens and customers of Fairfax County. Departments charge and collect a fee for many of these services. These fees represent “billable revenue”. Departments record billable revenue as permits, fees, licenses, fines, charges for various services, and recovered costs.

The benefits of an efficiently run revenue collection operation are significant. Some of these benefits are:

- Improved revenue flow
- Improved cash management
- Greater interest earnings on investments
- Greater budgetary control and funds to conduct programs
- Improved credit worthiness and reduction in borrowing costs
- Compliance with revenue laws

The Department of Finance is responsible for providing guidance and assistance to departments with billable revenue by making recommendations concerning billing, collection, accounting system and procedural recommendations. The Department of Finance also, to some extent, monitors the billable revenue operations in the County through specific requirements for departments engaged in this activity.

Purpose and Scope

We included this audit of Controls Over County Invoice Processing for Billable Revenues in our Fiscal Year 2000 annual audit plan. In FY 1993, our review of billable revenue operations Countywide concluded that departments used a wide variety of systems and processes for the billing and collection of revenue that was mostly incomplete and ineffective. In response to these circumstances, the Department of Finance initiated a “Billable Revenue Project” that produced *Accounting Technical Bulletin 036 “Billing and Collection Procedures for Billable Revenue”*. Also, the Department of Finance created the Billable Revenue Section to provide comprehensive and on-going assistance to departments in developing and maintaining an effective billable revenue operation. This audit reviewed the current County invoice and collection process to determine if the departments in the County maintain an adequate system of internal control over County invoice processing, collections and reporting. We examined these areas in order to provide reasonable assurance that the County is billing and collecting the maximum amount of revenue to which it is entitled, and to gauge the level of progress made since the initiatives instituted by the Department of Finance. The audit period covered billable revenue activity for Fiscal Year 1999.

Our review encompassed a County-wide survey of billable revenue operations to determine if the overall billing and collection process is effective and if any improvement has occurred since our FY 1993 review and the resulting initiatives by the Department of Finance. We also reviewed the administration over billable revenues for three departments in detail.

In conducting our survey and detail reviews, we interviewed staff, reviewed the accounting records, and focused on the management of the billing and collection process. We did not perform any detail transaction testing of the accounting records or perform a balance sheet audit of accounts receivable.

This audit was performed in accordance with generally accepted government auditing standards.

Executive Summary

Our comparative survey of County departments found little overall improvement in billable revenue administration between Fiscal Years 1993 and 1999. (See Exhibit I) This was the case despite actions initiated by the Department of Finance to provide guidance to departments. Sixty-nine percent of the surveyed departments do not have performance goals for revenue collection. Almost half do not have procedures in place for collection of past due amounts.

Compliance with the Department of Finance's Accounting Technical Bulletin 036 varies greatly. Some departments have done a very good job of establishing a well managed revenue collection process, while others have not adequately addressed the issues. Of the departments reviewed in detail, one in three did not satisfy a majority of the criteria for an effective billing and collection process.

The County's departmental implementation of FAMIS 4.2 Accounts Receivable Module varies from a full use of the system to departments who record their collections, but not their billings. Some departments use their own accounting systems to maintain billable revenue information. The FAMIS 4.2 Accounts Receivable Module does not contain complete billable revenue financial data for all departments.

Based on the outstanding \$41 million volume of billable revenue, there is potential for increased revenue collection through better management of the billing and collection process. It is very important that County Departments implement internal policies and procedures to address revenue collection. The Department of Finance needs to increase its efforts to obtain compliance with established policies and enhance the program of departmental monitoring, assistance, and support.

The Audit Comment and Recommendation and Exhibit sections provide the details of our review.

Comments and Recommendations

The Department of Finance has implemented some initiatives to improve billable revenue systems and establish revenue collection objectives for the County; however, there has been little overall improvement in billable revenue operations in the County.

The Internal Audit Office conducted a review of billable revenue operations in the County in FY 1993. This review addressed the issues of a uniform receivable system and performance measurement of collection efforts. The Department of Finance initiated the “Billable Revenue Project” with the goal of developing a County-wide system for Accounts Receivable where each department takes responsibility for maximum revenue collection and set performance goals for the collection of their billable revenues. As a result of the project, the Department of Finance established the following actions:

- The establishment of a Billable Revenue Team with-in the Accounting and Reporting Division in the Department of Finance to provide structure and guidance to Departments with billable revenues.
- The issuance of *Accounting Technical Bulletin 036, Billing and Collection Procedures for Billable Revenue* that requires departments to draft and submit a written billing and collection plan that addresses the billing process, an information system, a collection and delinquent account process and an evaluation process.
- The establishment of the FAMIS 4.2 Accounts Receivable Module that provides a series of reports enabling the departments to monitor receivable activity.

The intent of these initiatives was to put an emphasis on departmental performance, such that they would be accountable for the management of their own billable revenue. A comparison of progress for thirteen departments in 1993 compared to 1999 utilizing the same evaluation criteria for billable revenue operations (See Exhibit I) revealed that only one department has a complete receivable system and process and only four departments compare collection performance against a stated goal. Only five departments have submitted to the Department of Finance a revenue collection plan based upon the guidelines of *Accounting Technical Bulletin 036*.

Our detail review of three departments revealed that one department did not have an adequate information system for determining the total billings for services and the aging of past due accounts. In addition, there was no established collection plan and duties were assigned that did not permit an adequate separation between the custody and record keeping of billed collections.

One of the County’s major operating goals is the timely collection of all revenues. The Director of the Department of Finance, who also serves as the Treasurer for the County, has the oversight responsibility for assuring that the County’s goals are met and financial systems comply with applicable laws and procedures and are in conformity with generally accepted accounting practices. In addition, County departments that generate billable revenues are responsible for developing, implementing, and updating a plan of action to support the County’s policy and achieve the timely

collection of all revenues. To maximize the collection of revenues, County departments are required to document their billing and collection process to describe the billing process, information system, a collection and delinquent account process and an evaluation process.

Even though the Department of Finance has instituted some initiatives to improve the billable revenue functions in the County, the Billable Revenue Team within the Accounting and Reporting Section maintains multiple responsibilities and has not yet been able to visit with all County departments to ensure compliance with ATB036.

As a result, there are a substantial number of departments in the County that are not managing their receivables within the structure of the County's goal of revenue maximization.

Recommendation

The Department of Finance needs to increase its efforts to systematically pursue compliance on the part of County Departments to conform to an effective accounts receivable system that achieves the County's goal of revenue maximization. We recommend the Department of Finance do the following:

- Issue memorandums to those Departments that have not complied with the submission of a written billing and collection plan as required by *Accounting Technical Bulletin 036* requiring that a plan be submitted by a specific date.
- Perform a survey of those departments engaged in billable revenue operations to identify specific problems those departments may be experiencing with respect to information systems, reports, staffing requirements or needed guidance on specific issues.
- Implement an on-going program, based on information derived from the survey, that provides assistance and support to those departments experiencing difficulty in complying with established billable revenue guidelines.

Department Response

The Department of Finance concurs with the above recommendations. The Department of Finance will implement an action plan to bring County departments into compliance with County billable revenue requirements. We will issue guidance to departments concerning uncollectable non-tax receivables and will provide on-going support to departments that experience difficulties with billable revenue issues.

BILLABLE REVENUE SURVEY (EXHIBIT I) 1993 – 1999 COMPARISON

1993 Report Item	Evaluation Criteria for Billable Revenue Operations	1993 12 Depts	1999 13 Depts
1	Did not have a complete Accounts Receivable system and process.	12(100%)	12(92%)
2	Did not regularly compare revenue collection performance against a stated goal.	12(100%)	9(69%)
3	a) Did not have a general control account with subsidiary accounts for each customer. b) Could not report the total amount of invoices year to date.	a) 5(42%) b) 3(25%)	a) 6(46%) b) 1(8%)
4	Did not prepare delinquency reports.	5(42%)	4(31%)
5	Did not have an Accounts Receivable aged analysis.	7(58%)	5(38%)
6	Did not have customer statement information.	6(50%)	4(31%)
7	Recorded Accounts Receivable on a cash basis in FAMIS.	2(16%)	5(38%)
8	a) Did not have a clearly defined or documented policy for handling delinquent accounts. b) Could not report their fiscal year collection rate.	a) 6(50%) b) Most	a) 5(38%) b) 2(15%)
9	Did not have a clear criteria for writing off uncollectible accounts.	7(58%)	6(46%)
10	Did not routinely balance customer subsidiary accounts to a control account summary.	5(42%)	3.5(27%)
11	Did not have a current procedural manual.	5(42%)	5(38%)
12	Did not have specific procedures to collect on accounts that were 30,60,90 or greater than 90 days past due.	6(50%)	6(46%)
1999 Survey	Was not familiar with <i>Accounting Technical Bulletin 036, "Billing and Collection Procedures for Billable Revenues"</i>	N/A	2(15%)
1999 Survey	a) Has not developed and /or implemented the plans outlined in <i>Accounting Technical Bulletin 036</i> . b) Has not contacted the Department of Finance in the last year regarding the implementation of billing and collection procedures.	a)N/A b)N/A	a)10(77%) b)8(62%)

Note: Departments that implemented a sufficient portion of the requirement, but not all, were given 1/2 the credit